

Message Text

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ACTION AID-59

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FM AMEMBASSY ISLAMABAD

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INFO AMEMBASSY PARIS

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AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY HAGUE

AMEMBASSY OSLO

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY MANILA

AMCONSUL KARACHI

C O N F I D E N T I A L ISLAMABAD 2007

AIDAC

PARIS ALSO FOR OECD

MANILA FOR USADB

PASS TREASURY

E. O. 11652: GDS

SUBJ: PAKISTAN CONSORTIUM - DEBT

ZBEX: A. STATE 042426

B. ISLAMABAD 1920

SUMMARY: WE HAVE INFORMALLY DISCUSSED PARAS 1, 2, AND 3 REF A
AND AIDE MEMOIRE WITH SECRETARY OF ECONOMIC AFFAIRS DIVISION,
IQBAL HOSAIN, AND SEPARATELY WITH KHALID IKRAM, PLANNING
COMMISSION ECONOMIST WHO WILL BE MEMBER- SECRETARY GOP
DEL CONSORTIUM AND WILL ACCOMPANY DEPUTY CHAIRMAN OF
PLANNING COMMISSION IN WASHINGTON VISIT NEXT WEEK. GOP
OFFICIALS ASSURE US PURPOSE OF AIDE MEMOIRE NOT RPT NOT
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INTENDED TO SIGNAL UNILATERAL ACTION. INTENT WAS TO START CONSORTIUM DISCUSSIONS OF DEBT PROBLEM FACING PAKISTAN. HOWEVER, GOP IS FIRM IN STATING IT MUST EXPLAIN TO PAKISTAN PUBLIC WHY PAKISTAN IS PAYING FOR ASSETS IN BANGLADESH. THEREFORE IF PAKISTAN DOES NOT GET WHAT IT CONSIDERS ADEQUATE HEARING AND REASONABLE ACTION, WE CANNOT RULE OUT POSSIBILITY GOP ACTIONS WHICH MANY WOULD VIEW AS UNILATERAL. TONE OF AIDE MEMOIRE REFLECTS HARD LINE DEPUTY CHAIRMAN HAS TAKEN ON NUMBER OF OCCASIONS AND WE BELIEVE IT WOULD BE USEFUL FOR HIM TO HEAR FROM WASHINGTON OFFICIALS THAT A THREAT OF UNILATERAL ACTION MAKES RESOLUTION OF PROBLEM HARDERDQMRQXLI' KF# IFEBVASPHDKPVZHN#

#0 KAUKLO# GOP OFFICIALS NOTE THAT BHUTTO CONCERNED ABOUT QUESTION DEBT DIVISION AND ANXIOUS FOR SOME SIGN OF PROGRESS ON PROBLEM.

3. IN OUR DISCUSSIONS GOP OFFICIALS, WHEN ASKED FOR CLARIFICATION LANGUAGE AIDE MEMOIRE (PARTICULARLY PARA 5) NOTED THAT PAKISTAN WAS QUOTE REQUESTING UNQUOTE CONSORTIUM COUNTRIES TO BEGIN NECESSARY STEPS TO TERMINATE PAKISTAN LIABILITY FOR EAST PAKISTAN DEBT. THEY NOTE THAT AIDE MEMOIRE, PRESENTED TO REPS OF ALL CONSORTIUM DONORS IN CONTEXT JOINT BRIEFING, ALTHOUGH PRECEDED BY INDIVIDUAL TALKS WITH MOST IMPORTANT MEMBERS.

4. TERM OF PRESENT INTERIM ARRANGEMENT WAS THROUGH FY 1973. GOP INTERPRETS QUOTE FOR THE TIME BEING UNQUOTE TO REFER TO TIME PERIOD OF RESCHEDULING AGREEMENTS. GOP OFFICIALS NOTED THAT PAKISTAN SUGGESTED LONG TERM DEBT PROBLEM BE DISCUSSED BEGINNING IN 1968, BUT ONLY REPORTS HAVE RESULTED. THEY THEREFORE STATE IT ESSENTIAL TO INITIATE MULTILATERAL DISCUSSIONS DEBT PROBLEM NOW, IF TIMELY SOLUTION IS TO BE FOUND.

5. WHILE HIGHEST LEVELS GOP CONCERNED WITH POLITICAL DIFFICULTIES INVOLVED IN CONTINUING TO PAY FOR ASSETS IN BANGLADESH, GOP ECONOMISTS NOTED PROBLEM GOES FURTHER. THEY QUESTION WHETHER PAKISTAN ABLE TO SERVICE ITS OWN DEBT IF NOT RESCHEDULED, AND STILL FIND RESOURCES NEEDED FOR DEVELOPMENT.

6. URGENCY OF ACTION ON PROBLEM IS REINFORCED BY REAL GOP FEAR THAT AS PAKISTAN IMPLEMENTS NECESSARY ECONOMIC REFORMS SO THAT ECONOMIC SITUATION IMPROVES, DONOR ATTENTION AND SYMPATHY

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WILL MOVE TO MORE HOPELESS, LESS TRACTABLE CASES AND DEBT RELIEF WILL BE CONSIDERED UNNECESSARY FOR PAKISTAN. THUS THEY FEAR THAT AS PAKISTAN'S ECONOMY IMPROVES marginally IN SHORT RUN, ITS LONG RUN CHANCES, WHICH HEAVILY DEPENDENT UPON ASSISTANCE, WILL BE REDUCED. THEY ARGUE QUOTE WHY SHOULD WE BE PENALIZED FOR SUCCESS UNQUOTE.

7. GOP OFFICIALS NOTED THAT LCTTION OF INDONESIAN FORMULA NOT INTENDED AS A SPECIFIC FORMULA. INDONESIAN FORMULA MENTIONED AS WELL KNOWN EXAMPLE LONG TERM RESCHEDULING ON FAVORABLE TERMS.

8. WE HAVE ALSO DISCUSSED POINTS WITH IBRD RES REP PICHLER. HE INDICATES THAT HE HAS REPEATEDLY TOLD GOP OFFICIALS THAT INDONESIAN FORMULA A NON- STARTER, BOTH BECAUSE DONORS WOULD WISH TO DEVELOP FORMULA APPLICABLE PARTICULARLY TO PAKISTAN CIRCUMSTANCES, AND BECAUSE APPLICATION INDONESIAN FORMULA WOULD STILL LEAVE PAKISTAN WITH BUNCHING OF PAYMENTS. FROM INFORMAL DISCUSSION WE KNOW PAKISTANI OFFICIALS ACCEPT THIS POINT. HOWEVER, THEY CONTINUE USE INDONESIAN FORMULA AS EXAMPLE OF GENEROUS BUT LONG TERM DEBT RELIEF.

9. SEVERAL GOP OFFICIALS HAVE TOLD US THAT GBD AND JEWAN HAVE EVIDENTLY COME TO AGREEMENT RE PAYMENTS UPON FULLY COMPLETED AND DISBURSED FERTILIZER PLANT IN EAST PAKISTAN. THEY SAY THAT WHEN STATE BANK PREPARED PAYMENT IT WAS NOTIFIED BY GOJ ENTITY REPAYMENT OBLIGATION NOT DUE TO GOJ FROM PAKISTAN. HOWEVER, JAPANESE CHARGE' DENIED THIS DEVELOPMENT IN MARCH 8 CONVERSATION WITH EMBOFF.

10. IN VIEW POSITION WE HAVE TAKEN IN REF B (WHICH CROSSED REF A), WE WELCOME REF A, PARA 3 STATEMENT THAT QUOTE PAKISTAN UNQUOTE CREDITS SHOULD BE GIVEN FURTHER CONSIDERATION IN ACCORDANCE WITH UNDERSTANDING STATED IN 1972 AGREED MINUTES, AND ALSO PARA 4 SUGGESTION THAT A COORDINATED CONSORTIUM REACTION TO PAKISTAN'S PROBLEM BEGIN TO BE FORMULATED AS A FIRST ORDER OF BUSINESS. WE ARE PARTICULARLY CONCERNED AT LOOMING HIGH REPAYMENT LEVELS IN FY 75, FY 76 AND FY 77. SINCE FY 75 NOW ONLY 15 MONTHS AWAY, WE REITERATE OUR RECOMMENDATION THAT A MULTILATERAL PROCESS BE ACTIVELY PUT IN MOTION WHICH COULD LEAD TO TIMELY RENEGOTIATION PAKISTAN DEBT AFTER PROBLEM OF EAST PAKISTAN DEBT RESOLVED.

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